

Pensions Committee

2.00 p.m., Wednesday, 30 September 2015

Risk Management Summary

Item number	5.11
Report number	
Executive/routine	
Wards	All

Executive summary

In line with the pension funds' ongoing risk management procedures, this paper provides an overview of the risk analysis for Q2 2015/16 for consideration by the Committee.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Risk Management Summary

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 We recommend the Pensions Committee notes the Quarterly Risk Overview, having regard to any points raised by the Audit Sub-committee and the Pension Board.

Background

- 2.1 The pension funds' risk management procedures require us to:
 - 2.1.1 maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis, the degree of risk associated in each case and our action to mitigate these risks (the "**Operational Risk Register**"); and
 - 2.1.2 produce a summary report of the risk register for the Pensions Committee and the Pensions Audit Sub-Committee which highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the "**Quarterly Risk Overview**").

Main report

- 3.1 The Operational Risk Register has been issued to the conveners of the Pensions Committee and the Pensions Audit-Sub Committee.
- 3.2 The Quarterly Risk Overview, as at 14 August 2015, is set out in the appendix to this report for consideration.

Measures of success

- 4.1 Improved visibility of the risks facing the pension funds and progress in analysing/mitigating these risks. Regular, focused and relevant risk updates to the Committee should increase general awareness and allow productive analysis/feedback by the Committee members on these fundamental issues.
- 4.2 Ultimately, risk management should lead to less third party exposure, an improved financial position and have a positive impact on the reputation of the pension funds.

Financial impact

5.1 There are no direct financial implications as a result of this report.

Risk, policy, compliance and governance impact

6.1 Please see the Quarterly Risk Overview appended to this report.

Equalities impact

7.1 None.

Sustainability impact

8.1 None.

Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None

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Links

Coalition pledges

Council outcomes CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

Single Outcome Agreement





Appendices Appendix 1 – Quarterly Risk Summary, as at 14 August 2015.







QUARTERLY RISK OVERVIEW

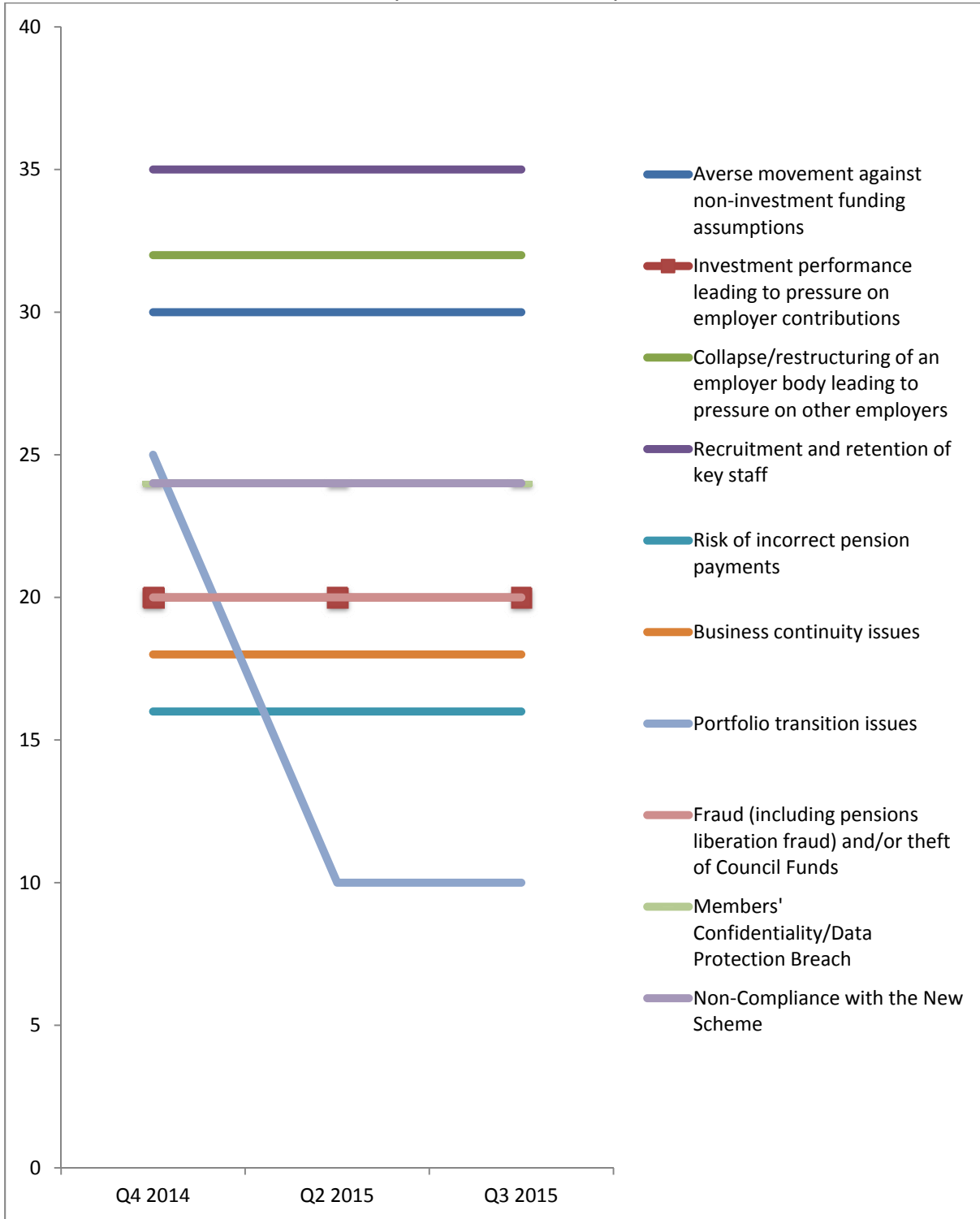
14 August 2015

UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend/RAG
Adverse Investment performance leading to pressure on employer contribution (1)	The new lower volatility investment strategy continues to be implemented to mitigate this risk.	Static 
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	The 2014 actuarial valuation is complete and experience against funding assumptions and employer contributions has been assessed. See also below regarding impact on employers and the appeals process.	Static 
Collapse/restructuring of an employer body leading to pressure on other employers (3)	<p>The revised funding approach for employers close to exiting the Fund reduces the risk to the Fund and the other employers.</p> <p>We continue to engage with a group of smaller employers within the Fund regarding the potentially adverse financial impact of the revised funding strategy arising from the 2014 valuation. This is covered elsewhere on the agenda.</p>	Static 
Recruitment and retention of key staff (4)	The new corporate structure is now in place, with separate HR support being provided by 121 HR Solutions Limited. This risk remains high due to the continued improvement in UK economic and market conditions in the private sector, but is anticipated to reduce in Q3 of the 2015/16 financial year once revised terms and conditions have been approved by the LPFE Limited board (following consultation with staff) which will likely include more appropriate notice periods etc.	Static 

Risk & Reference Number	Update	Trend/RAG
Members' Confidential Data is lost or made public / breach of Data Protection Act (12)	<p>There have continued to be several minor and unrelated administrative errors in mailing leading to the inadvertent disclosure of members details. The team continue to be made aware of their obligations in this regard and certain additional manual checks have been introduced. We are currently in the process of liaising with an external provider to finalise the cost/benefit analysis of outsourcing certain printing and mailing functions.</p> <p>LPF now has a separate registration with the Information Commissioner as a data controller, which appropriately allows the Council to include more specific details around pension fund business activities/data for the sake of clarity. LPF will continue to draw on the Council's Information Compliance team for services and support and remains part of the wider Council's reporting and governance oversight in this regard.</p>	Static 
Business continuity issues (11)	<p>The Pensions Audit Sub-Committee, at its meeting on 16 June 2014, requested that the Director of Corporate Governance considers whether a test of the disaster recovery system (of the pension administration system) was necessary to establish sufficient assurance. The software system for pension administration is hosted by the supplier. In February 2015, the supplier tested and verified the recovery of servers from its outsourced provider for both the core administration and the member self-service platforms. The Fund was able to access this test data. The Fund requested a comprehensive report on the testing procedures and outcome from the supplier and the report was received on 3 June 2015. The report does not highlight any concerns, but is very light on detail and so we are continuing to follow up with the supplier to drill-down into certain matters.</p> <p>We anticipate that business continuity risk will further reduce once the timetable and service spec from the new IT provider (DCF) is apparent and, ultimately, that provider is <i>in situ</i>.</p>	Static 
Non-compliance with the new LGPS Scheme in Scotland / Public Service Pensions Act 2013 (26)	<p>Implementing the new scheme from 1 April 2015 continues to place an increased pressure on existing resources, with staff being involved in presentations across the Lothians.</p> <p>The Pension Administration system is not yet able to process transfers under the LGPS 2015. The issues is being escalated and a system update is expected in October/November.</p> <p>The Internal Audit assessment of our compliance with the new scheme is now likely to take place during Q4 2015, with the Q3 Internal Audit prioritising our compliance with the Scottish LGPS Investment Management Regulations and the regulatory regime around foreign exchange contracts (EMIR).</p>	Static 
Over-reliance on single service provider for core functions (31)	<p>We continue to monitor the position in relation to our core providers and are looking to put in place arrangements to further mitigate this risk where it exists in relation to our Pension Administration systems, as far as this is possible.</p>	Static 

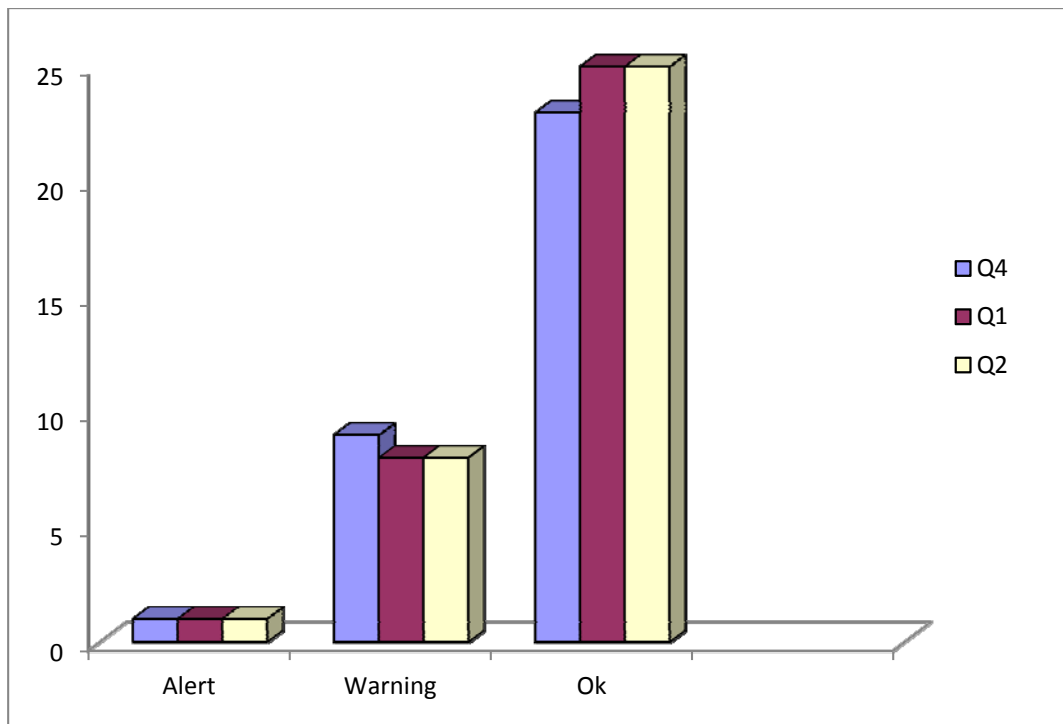
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



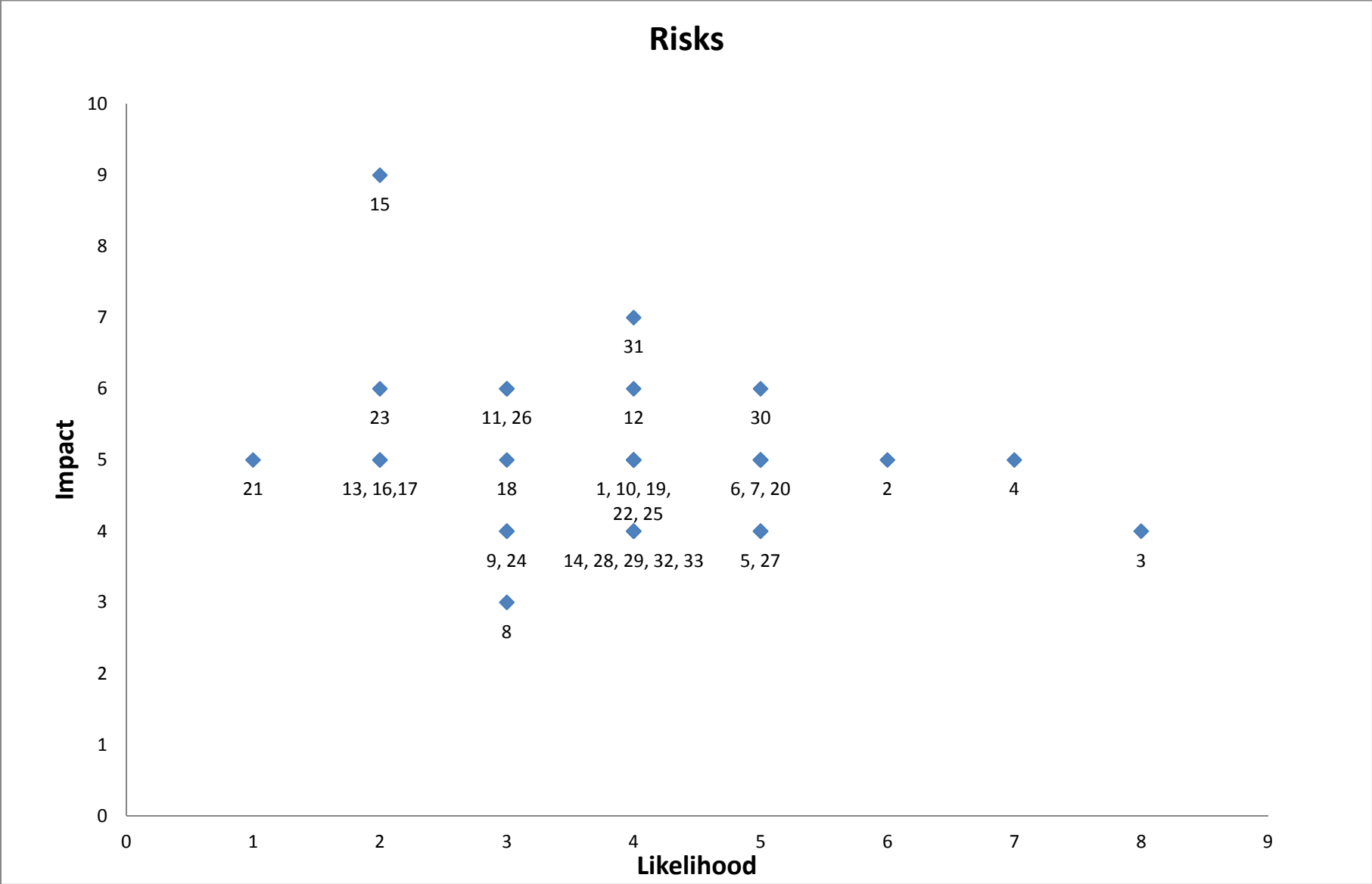
OTHER KEY POINTS

	Comments
New significant risks	None. We do however note that, as a sub-risk to Failure of IT Systems(7)/ Business Continuity Issues(11), we are closely monitoring the transition of the IT service provision from BT to CGI with a view to mitigating any service impact on the Fund and its members.
Other new risks	None.
New controls	Legal and Compliance representative to attend Northern Trust update calls on an intermittent basis throughout the year. (20)
Eliminated risks	None.
Notable initiatives / actions	<p>Altair amendments/code changes and calculation of CETV issues identified and to be addressed. Software/IT fixes scheduled for testing in September. (7)</p> <p>Telephone recording system in operation and being tested. (16)</p> <p>Internal Audit reviewing compliance with the Scottish LGPS Investment Management Regulations and foreign exchange contract regulation/EMIR. (20)</p> <p>Investment team reviewing research unbundling and ongoing cost analysis. (30)</p> <p>Recruitment of Legal & Compliance support and additional portfolio managers expected to be finalised by October. (32)</p> <p>Work ongoing to disable the extra Scott-Shield fire alarm system and install additional sensors for Protec system to remove auto-lock of our offices during alarms/tests and thereby align our systems to the rest of the Atria building. (33)</p>
Material Litigation	None.

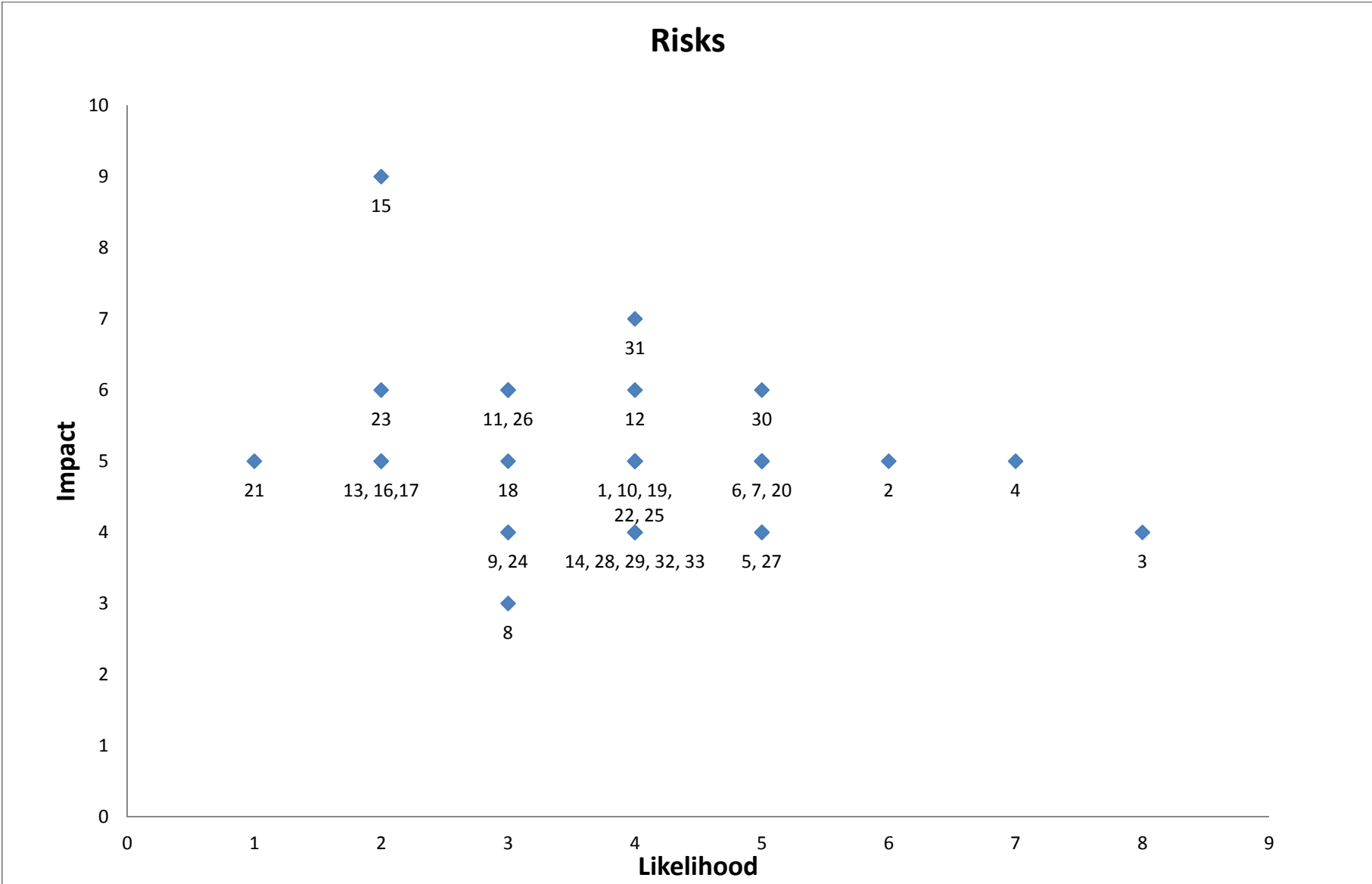
All Risks: Status Overview



Q1 (2015/16) All Risks: Impact and Likelihood Overview



Q2 (2015/16) All Risks: Impact and Likelihood Overview



Key: Risks by Number

- Adverse Investment Performance - pressure on employer
- 1** contributions
- Adverse Movement of non-investment funding
- 2** assumptions- pressure on employer contributions
- 3** Collapse of an employer
- 4** Recruitment and retention of key staff
- 5** Fraud or theft of Council/Pension Fund assets
- 6** Staff negligence
- 7** Failure of IT systems
- 8** Employers HR decisions without consideration of fund
- 9** Committee members take decisions against sound advice
- 10** Pension Board not operating effectively
- 11** Business continuity issues
- 12** Members' confidential data is breached
- 13** Loss due to stock lending default
- 14** Risk of incorrect pension payments
- 15** Late payment of pension
- 16** Market abuse by investment team or others
- 17** Portfolio transition issues
- 18** Disclosure of confidential information
- 19** Material breach of contract
- 20** Regulatory breach
- 21** FOI process not in accordance with law
- 22** Incorrect communication with members
- 23** Not acting in accordance with proper authority/delegations
- 24** Inappropriate use of pension fund monies
- 25** Procurement/framework breach
- 26** Non-compliance with the new LGPS
- 27** Claim or liability arising from shared services
- 28** Unauthorised access to PensionsWEB
- 29** Incorrect data from Employers leading to fines etc.
- 30** Inadequate contractual protection for services
- 31** Over reliance on single core service provider
- 32** HR insufficient to carry out active projects
- 33** Breach of Health and safety regulations